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1 4.5 percent that obtained for awhile and then the
2 5 percent that obtained for a shorter period of time --
3 were excessive when imposed? At any time during the
4 period of their imposition?

5 A Those are two different questions.

6 Q Yeah, they are.

7 I'll take them one at a time if you wish.

8 A When imposed -- I haven't attempted to
9 rollback and -- and confront myself with the evidence
10 that the Commission had, but certainly on the first
11 go-around, the 4-1/2 seemed broadly consistent with
12 experience to that date and with prospects for
13 California and with the world in which rapid competitive
14 inroads were not anticipated.

15 So, again, I haven't attempted to redo that
16 and to say how would I have decided.

17 But looking back in the course of this, the
18 4-1/2 adopted around the turn of the decade did have a
19 stretch, I think, but -- but was not -- was not out of
20 bounds.

21 My own reading was that -- is that adding a
22 half a percent later on, in light of subsequent
23 decisions and events, I find difficult, frankly, to
24 understand.

25 And I haven't attempted to read the decision
26 in great detail to understand it, but the portions I've
27 read, that -- that seems excessive in light of available
28 evidence.

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1 a couple of these sheets from UCLA as well as the
2 article.

3 MR. SASSER: Your Honor, we can certainly provide a
4 copy of the article tomorrow.

5 MR. STOVER: And if we could reserve an exhibit
6 number for that. At the close of Pacific's evidence, I
7 move the admission of that along with
8 Professor Schmalensee's testimony.

9 ALJ REED: Mr. Stover, I want to be clear, you do
10 not want these other underlying tables or charts?

11 MR. STOVER: I'm being prompted by my colleagues
12 here, your Honor, to ask for and insist upon the
13 remaining items, but I would appreciate if we could mark
14 those separately.

15 ALJ REED: Mark the tables that underlie it
16 separately?

17 MR. STOVER: Mark the tables that he referred to in
18 his answer separately from the Wall Street Journal
19 article.

20 ALJ REED: Okay. Is that possible, Mr. Sasser?

21 MR. SASSER: We will obtain copies of those, your
22 Honor.

23 ALJ REED: Okay. Let me preliminarily give you an
24 identification number for that exhibit. For the
25 article, tentatively that will be Exhibit No. 3.

26
27 (Exhibit No. 3 was reserved for
identification.)

28 ALJ REED: And the underlying data will be

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1 identified as Exhibit No. 4.

2 (Exhibit No. 4 was reserved for
3 identification.)

4 MR. FABER: Your Honor, the date of this article is
5 September the 22nd?

6 ALJ REED: Yes.

7 MR. STOVER: May I approach the bench, your Honor?

8 ALJ REED: Yes.

9 MR. STOVER: I am asking my colleague to hand out
10 to the other parties, and I am handing to you and the
11 reporter, certain data responses.

12 Q Do you have the data responses that
13 Pacific Bell supplied to you?

14 A No.

15 MR. SASSER: Do you have an extra copy?

16 MR. STOVER: We have limited numbers, but you will
17 certainly get yours, and I will give one to the
18 witness.

19 ALJ REED: Mr. Stover, do you want me to mark this
20 for identification as Exhibit No. 5?

21 MR. STOVER: Yes, ma'am. Thank you.

22 (Exhibit No. 5 was marked for
23 identification.)

24 MR. STOVER: Q Looking at what's been marked for
25 identification as Exhibit 5, Professor, were these data
26 responses directed to your testimony prepared by you or
27 under your supervision?

28 A I reviewed them. As I sit here, I don't know

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1 whether they were prepared by Pacific or prepared by
2 Dr. Tardiff. But I do believe I reviewed all these
3 before they went out.

4 Q You would adopt these as answers responsive to
5 questions regarding your testimony, would you not?

6 A Yes.

7 MR. STOVER: With that, your Honor, I would move
8 the admission of Exhibit 5.

9 ALJ REED: Any objection?

10 (No response)

11 ALJ REED: Exhibit No. 5 will be received into
12 evidence.

13 (Exhibit No. 5 was received into
14 evidence.)

15 MR. STOVER: Thank you. With that, I will let
16 Professor Schmalensee off the hook. I'm finished.

17 ALJ REED: Ms. O'Reilly.

18 CROSS-EXAMINATION

19 BY MS. O'REILLY:

20 Q Good afternoon.

21 A Good afternoon.

22 Q Reviewing Attachment 2 to Exhibit 1, your CV
23 including your various professional roles and
24 publications, I wonder if during the period from 1974 to
25 1990 you ever expressed a professional opinion or
26 submitted proposals on any of the public policy
27 discussions on the deregulation of the savings and loan
28 industry?

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1 A To the best of my recollection, no. I
2 certainly didn't study it, and I don't believe I was
3 involved in any way that I can now recall.

4 Q Some of your publications during that
5 time frame, by title, would suggest that you might have
6 touched on it, and likewise, some work you did for the
7 Federal Reserve Board later with respect to banking
8 issues.

9 A I am happy to discuss any particular ones that
10 suggest that. I don't think I did. My work with the
11 Federal Reserve Board was just a consultant on broad
12 issues of banking merger.

13 Q So you never had occasion to analyze proposals
14 for the deregulation and subsequent reregulation of the
15 savings and loan industry based on economic principles?

16 A I know I attended one or two seminars on the
17 issue when I was in the government. By the time I got
18 to Washington in '89, the main legislation had been
19 passed. I didn't have primary responsibility for the
20 Bush administration banking reform proposals. So I was
21 in conversations at a few meetings, but no serious
22 analysis.

23 Q In your testimony you favorably describe much
24 of Professor Kahn's analysis of basic principles of
25 economics?

26 A Yes.

27 Q And specifically, I direct your attention to
28 the bottom of page 6 of Attachment 2 to Exhibit 1 which

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1 continues on to the top of page 7 which reads in part:

2 "Professor Kahn has warned that
3 'recent experience clearly suggests
4 that the mixed system (competition
5 and regulation) may be the worst of
6 both possible worlds.'"

7 Are you familiar with what position
8 Alfred Kahn as the architect of the airline deregulation
9 under the Carter Administration took with respect to
10 what was the proper mix, in his view, between
11 competition and regulation in that industry?

12 A Gee, I am fairly familiar with the details of
13 that episode. If he said anything -- he said initially,
14 I thought, that you had to proceed carefully. He then,
15 in retrospect, said that that was an error.

16 I don't know the details of positions he
17 adopted beyond that.

18 Q Based on the four rules described as "few and
19 simple" on page 8 of that attachment, do you know in
20 Professor Kahn's opinion when there have been sufficient
21 emergence of competition in the airline industry to
22 suggest that these four principles were being met?

23 A The sense that Professor Kahn and, I might
24 add, every economist I knew at the time had was that
25 competition, that that industry was inherently a
26 competitive industry and that the structural conditions
27 were in place to cut over to competition.

28 So I guess I'm not sure that I know his

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1 position well in detail. But the general view was
2 certainly after Senator Kennedy's hearings in '75 and
3 related events that the evidence was on the table that
4 was necessary to justify a move to competition.

5 Q And as the first witness at that Kennedy
6 hearing, I am very familiar with Dr. Kahn's testimony
7 and wonder are you aware that an underlying assumption
8 of Dr. Kahn and Senator Kennedy was that small airlines
9 would expand the feeder routes, including PSA in
10 California, Peoples Express in New York, and other small
11 airlines and more efficiently service the intrastate
12 markets while the large airlines would continue to
13 service the hubs and the large traffic routes, that that
14 was an underlying assumption why competition would work
15 well inherently in the airline industry if it were
16 deregulated?

17 A I think that was the general sense of what
18 would happen in that industry. It shows the difficulty,
19 of course, of forecasting the effects of competition.

20 Q I was startled to hear you describe that once
21 the barriers to entry in the airline industry were
22 removed, that entry occurred rather rapidly, that there
23 were increased entrants after deregulation.

24 A I thought what I said was that -- well, that
25 particular market entry was sufficiently easy. I don't
26 know if I did, I didn't intend to say, that entry to the
27 industry was that easy, although it was relatively
28 easy. There was entry, and there was exit.

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1 Q Is it your view that following deregulation,
2 there was expanded entry into the airline industry
3 rather readily?

4 A I guess I don't understand the question.
5 There hadn't been new trunk entry in forever. There was
6 entry after deregulation. So by definition, there was
7 expanded entry. I don't know what you mean by "expanded
8 entry readily," or whatever the phrase was.

9 Q Isn't it a fact that shortly after the federal
10 legislation was enacted, that Congress removed the price
11 controls on jet fuel and that in fact almost immediately
12 after airline deregulation carriers such as Peoples
13 Express, PSA and other airlines actually went out of
14 business and other airlines merged, but the number of
15 entrants was reduced immediately following deregulation,
16 not expanded because an underlying assumption of
17 deregulation never was brought to fulfillment when it
18 came to barriers of entry?

19 MR. SASSER: Your Honor, I am going to object to
20 that question as being a compound question. And in
21 addition, what I am beginning to see on these questions
22 is a lot of assumptions of facts that are not in
23 evidence.

24 Dr. Schmalensee is not testifying as to
25 deregulation of the airline industry. And what we're
26 getting here is testimony in the form of questions.
27 These are not facts that have been established in
28 evidence, nor has a proper foundation been laid to ask

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1 Dr. Schmalensee questions that assume these facts as
2 being in evidence.

3 ALJ REED: Will you respond to Mr. Sasser.

4 MS. O'REILLY: I will attempt with hopefully two
5 questions to establish a foundation, although I think
6 one has been established based on this witness' repeated
7 references to airline deregulation as examples of the
8 success of Dr. Kahn's philosophy on broad economic
9 principles.

10 ALJ REED: Okay. And you will reduce your compound
11 question into smaller questions.

12 MS. O'REILLY: In the interest of time, I was
13 trying to combine them, but let's start again.

14 Q Would you agree that Dr. Kahn's reputation was
15 largely the result of his efforts as the architect of
16 airline deregulation?

17 A I think that is his public reputation. Within
18 the economics profession, it probably rests more on his
19 two-volume work on the economics of regulation which was
20 written before his involvement in airline deregulation
21 and which is what is cited here.

22 Q Do you generally conclude that airline
23 deregulation was successful?

24 A Yes.

25 Q And did you state in your earlier testimony
26 that it was your opinion that the number of entrants
27 into the airline industry expanded as a result of
28 airline deregulation?

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1 A Before deregulation there was no entry. After
2 deregulation there was entry. It expanded, yes. I
3 don't know how else to put that. That is very simple.

4 Q Certainly there were new airlines that came
5 into being before deregulation was authorized by the
6 CAB?

7 A New interstate trunk carriers?

8 Q Over a period of time as they received
9 licensing, yes?

10 A Between --

11 MR. SASSER: Excuse me. There is no question
12 pending.

13 THE WITNESS: Sorry.

14 MS. O'REILLY: Q What is the basis of your
15 conclusion that the number of entrants in the airline
16 industry -- all right. We will drop that. But if you
17 have any information that draws a relevant analogy
18 between airline deregulation and the proposals in this
19 proceeding, I will certainly like an opportunity to
20 cross-examine you on them.

21 MR. SASSER: There is no question pending, your
22 Honor. Counsel has made a statement.

23 MS. O'REILLY: Q What specific documents have you
24 reviewed in preparation for your testimony?

25 MR. SASSER: I am going to object to that as overly
26 broad.

27 MS. O'REILLY: Q Specifically, have you reviewed
28 Pacific's monthly monitoring reports as filed with this

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1 Commission?

2 A I have not reviewed Pacific's monthly
3 monitoring reports.

4 Q Have you reviewed their annual reports?

5 A I think I may have seen pieces, but not
6 systematically.

7 Q Have you reviewed the order I 93-02-028 which
8 was the Pacific Telesis spin-off case proceeding?

9 A I don't recall having seen any pieces of
10 that.

11 Q Do you recall having reviewed any of the
12 documents that were prepared and submitted subsequent to
13 that proceeding, specifically the financial report and
14 compliance report?

15 A Related to the spin-off proceeding?

16 Q Correct.

17 A I don't believe so.

18 Q What TS LRIC data specific to Pacific have you
19 reviewed in preparation for this case?

20 A I haven't reviewed any specific TS LRIC data
21 since I haven't cited any.

22 Q You have stated in the testimony on page 25 of
23 Attachment 2 to Exhibit 1, the last full paragraph,
24 second sentence:

25 "Presently, basic residential
26 access is well below cost."

27 Could you describe what evidence you are
28 basing that conclusion on?

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1 A It is my understanding, and I did review the
2 portion of the relevant decision, that it was the
3 Commission's intent that basic residential access be
4 priced below fully distributed cost.

5 I inquired of Pacific personnel whether basic
6 residential access was below incremental cost. I was
7 told that it was. I was not given specific data. So I
8 am relying on Pacific for the comparison with
9 incremental cost.

10 Q And who specifically at Pacific provided you
11 with that information?

12 A I confess, it came to me secondhand. I asked
13 Dr. Tardiff to contact Pacific. And I don't know for a
14 fact with whom he spoke. I think we addressed this, I
15 think it was addressed in response to a data inquiry,
16 but I don't recall. I don't know that I know a name.]

17 Q Are you aware that in the Universal Service
18 docket, the Commission's rules have called for the
19 development of a TS LRIC cost study to determine
20 precisely whether and to what extent basic service
21 prices are covering costs?

22 A I am not following that docket, so I was
23 unaware of that specific requirement.

24 Q I would ask that in the absence, therefore, of
25 any data to substantiate that statement, that it be
26 stricken from his testimony.

27 MR. SASSER: Your Honor, he stated very
28 specifically that he relied upon a Commission's decision

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1 for reference; that's the IRD decision.

2 In addition, he pointed out that he inquired
3 of Pacific as to whether or not there were -- it was
4 below incremental, and Pacific had actually responded to
5 that question and given him that information.

6 I can give your Honor, if you like, a cite to
7 the decision where it specifically does come to that
8 conclusion.

9 MS. O'REILLY: Well, I understand that decision to
10 have established that as a goal; and that in fact the
11 subsequent Commission decision to have this cost study
12 developed is so that that question can be answered and
13 that, therefore, this Commission has not taken a
14 position as to whether or not at this time basic
15 residential services are being priced below cost.

16 MR. SASSER: I disagree. I think that the
17 Commission states in its decision -- and we can pull the
18 cite to the decision --

19 ALJ REED: All right. Mr. Sasser, let's pull it
20 out.

21 MR. SASSER: -- very specifically.

22 ALJ REED: Okay.

23 MR. SASSER: If you would give me a moment,
24 please.

25 ALJ REED: Yes. Off the record.

26 (Recess taken)

27 ALJ REED: On the record.

28 MS. O'REILLY: Q This morning, in response to a

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1 question from Ms. Burdick, you testified that your
2 conclusions with respect to the cost of basic service
3 were based on TS LRIC studies; is that correct?

4 A I may have said it. It now appears, on
5 refreshing my memory, I shouldn't have said it. But I
6 may have said -- I did say TS LRIC. I shouldn't have.

7 Q This afternoon, you've testified that your
8 information with respect to the cost of basic service
9 was provided to you by Mr. Tardiff, correct?

10 A Particularly as regards to incremental costs,
11 yes.

12 Q Did Mr. Tardiff inform you that in the
13 Commission order with respect to the OANAD proceeding,
14 that they have ordered the development of TS LRIC
15 studies to be produced in January of 1996?

16 A I didn't ask him, but he didn't tell me.

17 Q Did Mr. Tardiff inform you that the cost
18 studies relied upon by the Commission in their IRD
19 decision were based on 1989 data?

20 A I was not aware of that.

21 MR. SASSER: Your Honor, if I might, I'll place the
22 citations that we talked about earlier into the record.

23 ALJ REED: Okay.

24 MR. SASSER: The relevant discussion in the IRD
25 decision appears on page -- mimeo page 45. And that's
26 Decision 94-09-065 in which the Commission stated that
27 it was setting the basic exchange service rate at
28 one-half of fully allocated costs.

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1 In addition, as Professor -- or, rather,
2 Dr. Smalensee, testified, Pacific informed him that the
3 incremental cost of basic service was well above the
4 basic service -- basic exchange service rate. And the
5 data for that appears in that proceeding in
6 Exhibit 670-A, page B-6, which was the cost testimony of
7 Rick Scholl.

8 ALJ REED: Thank you, Mr. Sasser.

9 MS. O'REILLY: In light of the fact that -- could
10 we go off the record?

11 ALJ REED: Off the record.

12 (Off the record)

13 ALJ REED: On the record.

14 Off the record, we have had a discussion about
15 the portion of Dr. Smalensee's testimony that
16 Ms. O'Reilly was questioning him on.

17 Mr. Sasser, of course, has pointed to some
18 language within the latest IRD decision, which speaks to
19 residential rates being below cost.

20 Ms. O'Reilly is questioning the cost studies,
21 the accuracy of the cost studies, since they are based
22 on much earlier year data and pointing out that in the
23 OANAD proceeding, the company, and that tentative
24 conclusion, will be put to the test as to whether or not
25 they are below cost and by exactly how much, or whether
26 or not they are at or above cost.

27 There is a request to strike that portion, or
28 have amended Dr. Smalensee's testimony referring to

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1 that. I have determined that there isn't any need for
2 that, that at least for my purposes and the Commission,
3 we're aware of what the status is of those earlier cost
4 studies and what the future objective is with respect to
5 making the cost studies much more accurate for the
6 future. Okay?

7 MS. O'REILLY: Okay.

8 Q Professor Schmalensee, I'm wondering what the
9 basis for your conclusion that price caps are not
10 necessary for Category 2 services is based upon in light
11 of the fact that you have not investigated which
12 services are in Class 2 or the rationale for their
13 placement in that category?

14 MR. SASSER: No question pending.

15 MS. O'REILLY: Yes. I'd asked what the basis was
16 for his conclusion.

17 MR. SASSER: That's rephrasing it. Okay.

18 THE WITNESS: Well, let's be clear. Where I make
19 that recommendation on the bottom of 28, I preface it
20 with the sentence, quote:

21 "A tentative determination of the
22 specific services that fit this
23 description would require a
24 service-by-service evaluation."

25 I then offer, as plainly a tentative assertion
26 that:

27 "Price protection should be
28 limited to Category 1 because those

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1 are the monopoly, nondiscretionary
2 services."

3 I don't offer that as a firm view, and indeed
4 Pacific's proposal doesn't go that far, doesn't remove
5 price protection from Category 2.

6 So this is by way of a tentative look ahead, I
7 suppose, as a way to characterize it.

8 MS. O'REILLY: Q So do I understand that your
9 recommendation would fall short of recommending at this
10 time that price caps be removed for Category 2
11 services?

12 A Oh, at this time. I tried to make it clear, I
13 don't think I know enough to go that far.

14 I think I know enough to say that that's a
15 question worth looking at, and that's what this intends
16 to do. But I was focused in this testimony primarily on
17 Pacific's proposal, which doesn't remove price
18 protection from Category 2, but retains price ceilings
19 at existing levels.

20 Q In response to a question posed by
21 Ms. Burdick, you said that mandating a productivity
22 target at a 2 percent level would, in fact, result in
23 annual automatic increases of one percent for prices
24 regardless of any cost considerations; is that correct?

25 A That is assuming a 3 percent rate of inflation
26 and a 2 percent productivity and -- contrary to
27 Pacific's, if you will, preferred proposal -- retention
28 of the formula, that would mandate nominal increases of

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1 one percent annually and, of course, a real decrease of
2 2 percent.

3 Q Have you considered the public policy
4 implications of such automatic price increases
5 regardless of the status of competition in that
6 particular market?

7 A I'm sorry; the public policy implications of a
8 nominal one percent price increase and a 2 percent
9 decrease.

10 Q Without regard for services for which there is
11 no competition?

12 A One normally thinks in terms of levels rather
13 than in terms of rates of change. I would prefer
14 Pacific's proposal, which, on its face, is more generous
15 to consumers of stable prices rather -- and Pacific
16 bears the inflation risk rather than the proposal of the
17 2 percent increase.

18 But you can't consider levels in isolation --
19 I'm sorry -- rates of change in isolation.

20 The current prices, I gather, are relatively
21 low by national standards. And neither of those
22 proposals -- unless there's something dramatic going on
23 elsewhere -- would alter that.

24 Q In response to another question from
25 Ms. Burdick that related to potential oligopoly and
26 duopoly players, you indicated that you anticipate
27 competition would develop in most markets.

28 Could you identify in what markets you do not

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1 anticipate competition developing?

2 A I'd have to hear the specific question. But I
3 believe, as I indicated in response if not to that
4 question but to others, I haven't done a detailed study
5 of the likely scope of competition, that being beyond
6 the scope of my testimony.

7 MS. O'REILLY: That's all I have.

8 ALJ REED: Thank you, Ms. O'Reilly.

9 Ms. Grau.

10 CROSS-EXAMINATION

11 BY MS. GRAU:

12 Q Dr. Schmalensee, I'm Janice Grau representing
13 the Division of Ratepayer Advocates. I just have a few
14 questions.

15 You testified earlier you had difficulty
16 understanding the addition of 50 basis points to the
17 X factor in the last decision regarding the last
18 triennial or the first triennial review; is that
19 correct?

20 A Yes. I didn't read the entire record.

21 I did read the portion of the decision, and on
22 that basis, found it hard to see where the 50 basis
23 points came from.

24 Q All right. Did you read the proposed decision
25 in that proceeding?

26 A I thought I just read the final. I don't --

27 Q All right. In the proposed decision, and the
28 recommendation was for an X factor of 6 percent --

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1 A I do not believe I read the decision with an
2 X factor of 6 percent in it.

3 Q All right. Given the -- what you know of the
4 record from reading the decision, would you have found
5 6 percent to be unreasonable?

6 A Based on, again, not having tried to do this
7 exercise except doing it on the fly as I sit here,
8 6 percent would have seemed to me high, sort of beyond
9 the existing TFP studies. And even 5 percent seemed to
10 rely on an expectation of an acceleration of
11 productivity growth that didn't seem to me to have a
12 firm basis in at least the materials that I saw cited.

13 So 6 percent would have also been, I would
14 have thought, unreasonable.

15 Q To your knowledge, had Pacific had any trouble
16 raising capital during the period it's been under
17 incentive regulation?

18 A I haven't studied the question. I'm not aware
19 of any difficulties, but I simply haven't done the
20 inquiry.

21 MS. GRAU: Those are all the questions I have.

22 Thank you.

23 ALJ REED: Thank you, Ms. Grau.

24 Mr. Golabek, did you have any clarifying
25 questions?

26 MR. GOLABEK: No, nothing at this time.

27 ALJ REED: Okay. Thank you.

28 Mr. Schmalensee, I just have a couple

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1 questions for you.

2 EXAMINATION

3 BY ALJ REED:

4 Q When you speak of Pacific's preferred
5 proposal, your testimony speaks of the proposal being
6 requested for an indefinite period of time; is that
7 correct?

8 A I don't know if I -- if I used that language,
9 but that's certainly the nature of the proposal; yes,
10 ma'am.

11 Q Do you have any sense of what Pacific views as
12 an indefinite period of time?

13 A I think the problem is -- and I would add
14 parenthetically this is certainly something I've had
15 discussions about -- the problem that your Honor faces
16 and that we all face is that this proceeding is part of
17 a larger whole.

18 And what makes sense to think about doing by
19 way of, say, any sort of commitment to price stability
20 has got to depend importantly on what happens in the
21 other arenas.

22 I would interpret this -- I don't know whether
23 Pacific's willing to make the commitment -- but I would
24 think of this certainly as a commitment to stability
25 until there's some sense of what's happening in those
26 other arenas when, you know, questions of adjusting
27 rates and putting in place subsidy mechanisms and so
28 forth, when those issues are addressed.

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1 Then I would think just in the nature of all
2 this, Pacific would certainly look hard at: Could it
3 promise stability; Would it need adjustment.

4 The Commission would in the nature of it want
5 to look at: Is stability enough; Should they be
6 decreasing; Should they be increasing.]

7 So I -- it's inevitably indefinite, but I
8 think it's -- this is so linked to the other proceeding
9 that I -- I personally think of this stability
10 commitment as implicitly fairly short term, potentially
11 long term, but conditional.

12 Again, I've tried to avoid telepathic
13 assertions here. So --

14 Q I appreciate that.

15 Dr. Schmalensee, are you aware that Pacific's
16 recommendations in this proceeding are very similar to
17 recommendations that they made in the initial NRF
18 proceeding?

19 A I wasn't aware of their initial
20 recommendations. No.

21 Q I don't know if you are the right person to
22 ask this; and, if not, then you can refer me to a proper
23 Pacific witness.

24 I note in your testimony that while you state
25 the three issues that the Commission was concerned
26 about, that you focused primarily, understandably, on
27 the first one, which allowed Pacific to kind of
28 explore --

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1 A (Nodding head)

2 Q -- its primary proposal and then consider the
3 modification suggestion of the question.

4 It seemed as if you spoke somewhat to Issue
5 No. 2?

6 A (Nodding head)

7 Q I'm curious about Issue No. 3.

8 I noted, well, that it didn't appear in your
9 testimony --

10 A (Nodding head)

11 Q -- the direct testimony; and in your reply
12 testimony there seemed to be a somewhat dismissive air
13 in responding to the proposals and recommendations of
14 the other parties that addressed the issue.

15 Could you speak to that just a little bit?

16 A Yes, your Honor. I'm sorry if it appeared to
17 be dismissive, but I mean those are able people making
18 serious proposals.

19 I guess the reason for it, and what's implicit
20 here, is that this change makes sense now.

21 While it is logically consistent with, and a
22 good first step toward, a more competitive regime, it's
23 also a sensible change without going down that road.

24 Whether -- you could judge whether 5 percent
25 is unreasonably high or unreasonably low or whatever,
26 and similarly for 2 percent.

27 In large part -- not exclusively, but in large
28 part, without thinking about future changes in the

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1 market, this testimony isn't written contingent on
2 competition's taking the field.

3 It talks about the existing impact on
4 intraLATA toll but doesn't presume for its validity a
5 lot of local exchange competition.

6 That's the reason -- there's an implicit "no"
7 to three being given here as regards this proposal.

8 Now, discussions about conditions of entry and
9 dealing with entry barriers (indicating) -- those are
10 important considerations but not, in my view, here.

11 The things to be considered about, you know,
12 what does this Commission want to do to move toward
13 local competition and to be assured that it's possible
14 and so forth, what does it want to have accomplished or
15 have before it before it grants increased pricing
16 flexibility?

17 I -- those are serious questions. Those are
18 good questions.

19 But they don't, to my mind -- and this is
20 probably where the dismissive tone comes from -- they
21 don't, to my mind, have much to do with the issues
22 addressed in my testimony or in the testimony of the
23 other Pacific witnesses or the proposal made. That's
24 the reason.

25 Q Okay. And I guess that's where my question
26 goes.

27 Was it that you were not assigned to look at
28 that issue?